

Message Text

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ACTION NEA-16

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 INR-11 NSAE-00

PA-04 RSC-01 USIA-15 PRS-01 SP-03 DRC-01 FEA-02

AEC-11 AID-20 CEA-02 CIEP-03 COME-00 EB-11 FPC-01

H-03 INT-08 L-03 NSC-07 OMB-01 PM-07 SAM-01 SCI-06

SS-20 STR-08 TRSE-00 FRB-03 /195 W

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R 100720Z AUG 74

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 0471

INFO AMEMBASSY ABU DHABI

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

C O N F I D E N T I A L KUWAIT 3318

FROM PAGANELLI, AMEMBASSY DOHA

E.O. 11652: GDS

TAGS: ENRG QA

SUBJECT: VIEWS ON OIL SITUATION IN QATAR

1. SUMMARY: QATARIS WERE PREPARED TO SHUT DOWN PRODUCTION IN RESPONSE TO QPC'S ATTEMPT TO ROLL BACK OIL BUY-BACK PRICE FROM 93 PERCENT OF PP. QPC CAVE-IN AVERTED SHUT DOWN. GOQ APPEARS AMENABLE TO HOLDING PRESENT LINE ON PRICES FOR NEXT FEW MONTHS, AND PERHAPS BEYOND, IF IT CAN BE CONCLUSIVELY SHOWN THAT ESCALATING OIL PRICES ARE PRIMARY CAUSE OF WORLD-WIDE INFLATIONARY SPIRAL. END SUMMARY.

2. DURING SEPARATE CONVERSATIONS OVER PAST WEEK, THREE KEY PERSONALITIES IN QATARI OIL PICTURE PROVIDED PERSPECTIVES
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ON CURRENT SITUATION HERE. PLEASE PROTECT ALL SOURCES.

3. SHELL/QATAR MANAGING DIRECTOR CREPET (FRENCH) TOLD ME THAT GOQ HAD THREATENED PRODUCTION SHUT DOWN IN RESPONSE TO QPC'S INITIAL REFUSAL TO CONTINUE PAYING 93 PERCENT OF POSTED PRICE FOR BUY BACK OIL. (SHELL WENT ALONG WITH 93 PERCENT, AND DID NOT RPT NOT JOIN QPC'S ABORTIVE EFFORT TO ROLL BACK PRICE. SHELL POSITION, GOQ SHUT-DOWN THREAT, PLUS GULF/BP AGREEMENT WITH KUWAIT EVENTUALLY COMPELLED QPC TO CAVE.) IN RESPONSE TO QUERY WHETHER HE EXPECTED GOQ TO PRESS COMPANIES FOR EQUAL TREATMENT WITH KUWAITIS ON BUY-BACK PRICE, CREPET REPLIED THAT ALTHOUGH THIS CONCEIVABLE, HE HAD HEARD NOTHING AS YET. HE SAID HE WAS PREPARED TO POINT OUT TO GOQ THAT IF EQUITY AND BUY BACK PRICES WERE AVERAGED, QATARIS WERE RECEIVING 78 PERCENT OF PP AS OPPOSED TO 75 PERCENT FOR KUWAITIS; DIFFERENTIAL WAS ACCOUNTED FOR BY FACT THAT COMPANIES BOUGHT LESS PARTICIPATION CURDE FROM KUWAIT THAN FROM QATAR. CREPET SAID HE ALSO TAKING EVERY POSSIBLE OPPORTUNITY TO TRY TO EDUCATE GOQ ON HIGH PETROLEUM PRICES AS PRINCIPAL FACTOR IN PRESENT WORLD-WIDE ECONOMIC DISLOCATIONS WHICH COULD BOOMERANG HERE.

4. ON ANOTHER SUBJECT, CREPET TOLD ME THAT GOQ HAD TRIED TO RENEGE ON JULY \$500 THOUSAND INTEREST PAYMENT TO SHELL ON OUTSTANDING BALANCE DUE COMPANY FOR COMPENSATION AS PART OF 60 PERCENT PARTICIPATION AGREEMENT. HE SAID HE HAD SHARPLY PROTESTED TO OIL MINISTRY, AND HAD DEDUCTED SUM FROM PAYMENTS DUE GOQ FOR BUY-BACK OIL; GOQ HAS NOT RPT NOT YET REACTED.

5. DIRECTOR OF PETROLEUM AFFAIRS ALI JAIDAH CONFIRMED THAT GOQ WAS PREPARED TO SHUT DOWN ALL PRODUCTION HAD QPC NOT CAVED IN DISPUTE OVER BUY BACK PRICE. HE REMARKED ON PERSONAL BASIS THAT QATARIS MIGHT "TALK" TO COMPANIES ABOUT RAISING THE ANTE FOR BUY-BACK OIL TO PERCENTAGE OF PP OBTAINED BY KUWAIT. DURING GENERAL DISCUSSION OF OIL PRICE PROBLEM, JAIDAH ASSERTED THAT QATAR WILLING TO HOLD THE LINE ON PRICES IF GOQ COULD BE CONCLUSIVELY SHOWN THAT MOST IMPORTANT FACTOR IN WORLD INFLATIONARY SPIRAL IS PRICE OF OIL. HE SAID GOQ WOULD BE AMENABLE TO HOLDING PRICES AT CURRENT LEVELS FOR A TRIAL PERIOD TO DETERMINE WHETHER THIS WOULD PLAY MAJOR ROLE IN DAMPING DOWN INFLATION; HOWEVER, IF PRICES OF WHAT PRODUCERS

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BOUGHT CONTINUED TO RISE, OIL COST WOULD KEEP PACE AS MATTER OF SIMPLE EQUITY. HE VOICED FAMILIAR REFRAIN THAT PRODUCERS HAD FOR YEARS PAID THE PRICE WITH CHEAP OIL FOR CONSUMER'S PROSPERITY, AND DRAMATIC ESCALATION OF OIL COST WAS JUSTIFIED EFFORT TO RECOUP PAST LOSSES FAST. RE PARTICIPATION, JAIDAH SAW 100 PERCENT CLOSE AT HAND IN SAUDI ARABIA AND SAID QATAR AND OTHERS WOULD NOT RPT NOT LAG BEHIND. HE EXPRESSED VIEW THAT AT THIS STAGE OF GAME COMPANIES WOULD ACCEPT PARTICIPATION AS WELCOME

RELIEF FROM EXISTING TENSIONS IN GOVERNMENT-COMPANY RELATIONSHIPS.
HE FORESAW CONTINUEING AND IMPORTANT ROLE FOR COMPANIES.

6. DIRECTOR OF INDUSTRIAL DEVELOPMENT SAID MISHAL, WHO HAS
BECOME QOG'S CHIEF NEGOTIATOR WITH COMPANIES, AND APPARENTLY
HAS ECLIPSED JAIDAH AS AMIR'S MOST INFLUENTIAL ADVISOR ON
OIL MATTERS, TOLD ME THAT REPORTED DIFFERENCES BETWEEN SAUDIS AND
REST OF OPEC ON OIL PRICES HAVE BEEN OVERPLAYED. ECHOING JAIDAH,
MISHAL SAID THAT OIL PRICES COULD BE STABILIZED PROVIDING
THAT COST OF WHAT PRODUCERS BUY ALSO STABILIZED. HE ALSO INDICATED
GOQ WOULD SUPPORT HOLDING LINE FOR A TRIAL PERIOD. IN THIS CON-
TEXT, HE ASSERTED QATARIS WOULD HONOR 93 PERCENT BUY BACK AGREE-
MENT AT LEAST FOR 3RD QUARTER, AND WOULD NOT RPT NOT TRY TO
OBTAIN SAME PERCENTAGE AS KUWAITIS FOR TIME BEING. HE INDICATED
THAT SAUDI AUCTION AND OPEC MEETING IN SEPTEMBER WOULD PROVIDE
NEXT OPPORTUNITY FOR ASSESSMENT OF PRICE SITUATION. MORE
GENERALLY, MISHAL REMARKED THAT PRICE OF OIL COULD NOT RPT NOT
BE CONSIDERED IN ISOLATION FROM OTHER COMMODITIES AND INDUSTRIAL
GOODS, AND TIME HAD COME FOR BROAD-RANGING RATIONAL DISCUSSION
AMONG RESPECTIVE PRODUCERS AND CONSUMERS TO REORTDER WORLD
ECONOMIC EQUILIBRIUM. HE SUGGESTED THAT HEAVY TAXES IMPOSED ON
PETROLEUM PRODUCTS BY MANY WESTERN GOVERNMENTS WERE NOT
ONLY A PRIMARY CAUSE OF HIGH COSTS, BUT ALSO INHIBITOR OF REQUIRED
STIMULUS FOR CAPITAL INVESTMENTS IN THESE SAME COUNTRIES.

7. COMMENT: ALTHOUGHNEITHER JAIDAH NOR MISHAL REJECTED MY
ARGUMENT THAT SKYROCKETING OIL PRICES HAD SPARKED SERIOUS WORLD-
WIDE ECONOMIC DISLOCATIONS THAT COULD BOOMERANG ON PRODUCERS,
THEY WERE CLEARLY SKEPTICAL. IN ANY CASE, THEIR "MAN FROM
MISSIOURI" POSTURE COULD PROVIDE SOME RESPITE FOR NEXT FEW
MONTHS.
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